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SIPDIS

SENSITIVE

STATE PASS TO EXIM FARRELL AND ELLIS  
STATE PASS TO USTR EHLERS AND WEISEL  
DEPT FOR EAP/MTS AND EEB/IFD/ODF  
COMMERCE FOR 4430/NADJMI AND 6930/HUEPER  
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SUBJECT: SCENESETTER FOR EXIM FARRELL VISIT TO INDONESIA

**¶1.** (SBU) Summary: Your visit to Indonesia offers an opportunity to improve the competitive position of U.S. companies in this economy, at a time of improving U.S.-Indonesia bilateral relations. The effects of the global financial crisis have been milder in Indonesia than elsewhere, with Indonesia experiencing only a growth slowdown rather than recession. The Indonesian government has introduced a number of protectionist policies in recent months. Indonesia needs investment in several key sectors, especially infrastructure and energy. Participation by the U.S. Export-Import Bank can help U.S. companies successfully compete in the development of these sectors.  
End Summary.

Election Outcome

**¶2.** (SBU) President Yudhoyono appears to have won the Presidential election in the first round on July 8. Yudhoyono received about 60% of the vote, according to quick counts that were accurate in April's parliamentary voting. Although official results will not be released until later this month, the President's apparent victory is being treated as a fait accompli by Indonesians. Many observers expect changes among Indonesia's cabinet officials as the President forms a new governing coalition, but there have been no official announcements to date.

Comprehensive Partnership

**¶3.** (SBU) President Yudhoyono proposed the idea of a U.S.-Indonesian comprehensive partnership in November 2008. Secretary Clinton endorsed the idea during her February visit to Indonesia. Both sides expect to announce the launch of the partnership during a possible President Obama visit to Indonesia in November. The proposed comprehensive partnership consists of three baskets: political and security cooperation; sociocultural, educational, and technological cooperation; and economic and development cooperation. Yudhoyono's apparent victory in Indonesia's presidential election on July 8 should allow the partnership to proceed.

Economic Outlook

**¶4.** (SBU) Indonesia has weathered the financial crisis better than many of its neighbors. Consensus forecasts are for 3.5% growth this year, slightly lower than the government's goal of 4.3% growth. Indonesia's moderate economic slowdown is in sharp contrast to many of its Asian neighbors experiencing recession. The Indonesian government enacted a modest stimulus bill earlier this year that provided tax incentives and some additional spending for

infrastructure projects already underway.

¶15. (SBU) Despite its relatively robust economic performance, Indonesia has instituted a string of protectionist measures in the wake of the global economic crisis. Regulations on import licensing, pharmaceutical licensing, local content for telecommunications projects, required use of letters of credit for exports of certain commodities, restrictions on the sale of offshore financial products and local print requirements for films have all created hurdles for U.S. companies seeking to do business in Indonesia. We have fought these measures with some success. Indonesia has delayed implementation of some measures and offered exemptions for specific U.S. companies in other cases.

¶16. (SBU) Indonesia has lowered its foreign direct investment projections as a result of the global economic slowdown. Against this backdrop, an increase in U.S. private sector engagement in key sectors would be welcome, and ExIm's desire to increase participation in Indonesia can significantly further this goal. We are pursuing other potential steps to facilitate U.S. business in Indonesia, including negotiating an updated OPIC agreement.

#### Key Sectors

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¶17. (SBU) Inadequate infrastructure and subsidized energy consumption remain key challenges to Indonesia's development. Roads, ports, airports, and electric power generation are all insufficient for Indonesia's current needs. Significant new investment in all of these sectors is required if Indonesia is to achieve the higher sustained growth needed to reduce poverty and increase living standards.

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¶18. (SBU) Civil aviation has been a real success story for U.S. companies in Indonesia recently. Parliament's recent enactment of key provisions of the Cape Town Agreement enabled a number of deals, the largest of which was to Lion Air. Other likely sales of helicopters and airplanes are in the works.

¶19. (SBU) The medical equipment market has potential. The Indonesian government has recently issued permits for some new private hospitals. This should create an opportunity for U.S. manufacturers of high-value medical devices.

#### Energy and Power

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¶10. (SBU) The oil and gas sector continues to attract foreign companies and investment, and will be a major source of business for U.S. firms. A prolonged decline in investment following the 1997-98 financial crisis led to a significant decline in oil output, and Indonesia has been a net oil importer since 2004. Policymakers are troubled that the production decline was accompanied by increasing production costs, needed to sustain output at old wells. Government efforts to control costs and promote domestic services companies by fiat concern oil and gas producers.

¶11. (SBU) Indonesia faces a critical shortage of electricity, and many regions experience regular electricity blackouts. Nearly 45% of Indonesia's installed capacity is captive power self-generated by manufacturers or buildings. The government has launched two phases of an electricity generation "crash program," each intended to add 10,000 MW of generating capacity. Phase I consists of 35 new coal-fired power plants, primarily built by Chinese contractors with Chinese concessionary financing. Phase I has suffered from production delays and management problems. Some Chinese financing has been stalled due to seemingly unrelated business disputes.

¶12. (SBU) The Phase II crash program offers a new opportunity to international energy companies. This program is to consist of 60% renewable energy - geothermal and hydro power - and independent power producers will build and operate a majority of the power plants. The Indonesian government has not yet determined how it will finance this program in a power market where consumer tariffs

are heavily subsidized.

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